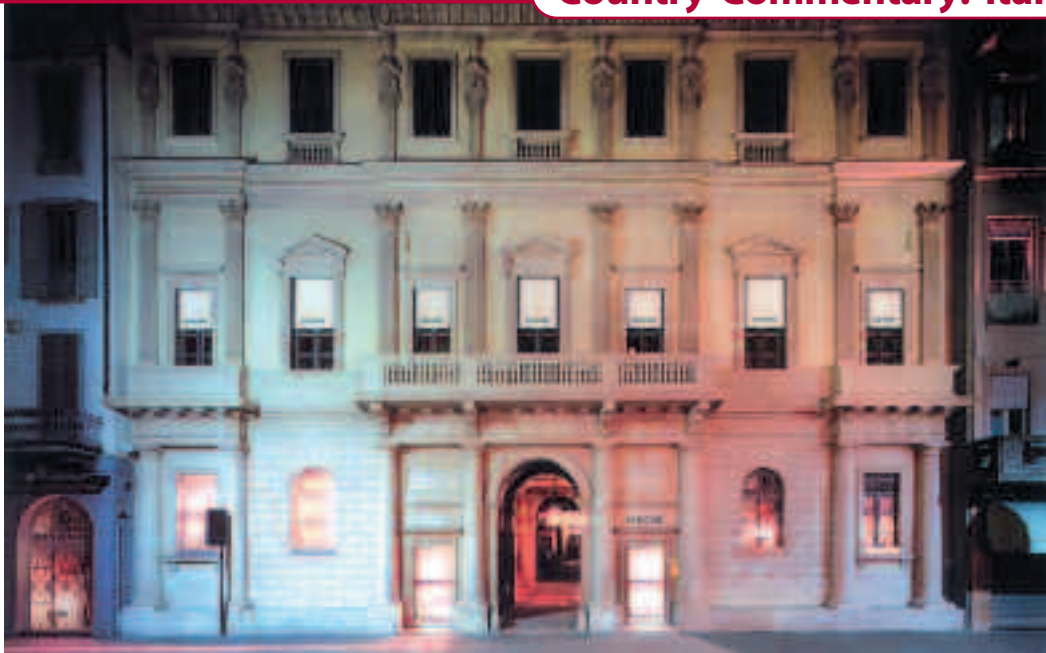




Clusters and the GEOX factor

A year ago Mario Polegato (*right*), founder and CEO of GEOX footwear, took part in the TFL Forum at Lineapelle/TanningTech. He argued that industry in Italy and the rest of Europe might be able to fight for fair competition against low cost manufacturing companies, but will no longer be able to obtain any form of trade protection.



To face the difficult times arising from globalisation and the IT society the ancient format of the Italian business has to be rejuvenated. Italian products must be further enhanced and all Italian business must "introduce the concept of marketing". The future for the small- and medium-size enterprise, SME, lies in knowledge. Companies must become more creative, with improved training and enlarged research and development for both products and materials. Manufacture itself is likely to relocate to low labour cost countries. According to Mr Polegato, state education works on a "different set of tracks than industry" and many trade associations have "lost sight of their objectives" wasting time in "days and days of discussion".

No one in the leather industry thinks of Italy without considering the concept of clusters or local industrial districts for which so many Italian industries are famous. It was out of these clusters that GEOX has grown to its No.8 position in the brown shoe market.

Back in 1990 the management guru Professor Michael Porter identified and publicised this 'cluster' effect and drew implications for the rest of the world based on what he had seen in Italian footwear and textiles. Through the nineties to the present day the local industrial district, or cluster, has been proposed as the route to develop industries in the third world and to help regenerate employment in suffering areas of the developed world. Suddenly the local industrial district was the solution to all industrial ills. It is easy to explain and understand, easy to consult about, and looks easy to implement.

Paradoxically the period since 1990 has coincided with increasing difficulty in Italy in both leather and textiles. There are perhaps some points overlooked by Professor Porter. First, the Italian cluster growth in the '70s was initiated with cheap labour compared to their European competitors and, second, their proximity to Germany meant that little marketing was needed. The German shoe buyers were very much the ones who dictated the pace and they came to Italy rather than the other way around. The high level of localised specialisation along with the close linkages to the tanners and other component suppliers made the industry very flexible. A reputation for high quality quickly grew internationally.

In the 1980s the Italians began some international marketing using advertising, public relations and promotional events plus a high level of co-ordinated trade show activity to counteract strong growth in competition from Spain and Portugal. The Italian industry no longer had a price advantage over its competitors and required all the leverage of design, fashion and image to hold its volumes and margins.

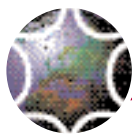
As Brazil, India and increasingly China began to enter the marketplace so did the growth in commercial globalisation and a worldwide preference for trainers and sports shoes which were a south-east Asian speciality. This trend also impacted in the Italian market itself and imports began to surge.

Is the Italian cluster still valid?

So is the Italian cluster still valid? It is an important issue. Léon and Guadalajara in Mexico, greater Chennai in India, Alcanena in Portugal and the Sinos Valley in Brazil are all places in the world which class themselves as leather clusters in one form or another. Are these places going to be able to sustain attractiveness to capital and labour when corporations are increasingly mobile internationally? Beyond that we have places such as Pakistan and many African countries trying to develop leather clusters.

The first thing that is clear is that there are a number of types of cluster around the world. The US academic Markusen ►

Top photo: GEOX Milan showroom.



Country Commentary: Italy

indicated that we had both the original Marshallian type plus a very flexible and dynamic "Italianate variant" characterised by a big proportion of staff involved in new product development and design, a very high level of co-operation and flexibility, and very strong trade associations.

In addition to these we have state anchored districts and satellite platform districts, and hub-and-spoke districts. The state anchored is a district based around one or more large government institution such as a national capital or a university. The satellite district is one with a number of large externally owned and headquartered companies and is typically found in an export or duty free zone. The hub-and-spoke format is where a small number of much larger vertically integrated companies dominate the picture. These last two are both relevant to the automobile industry.

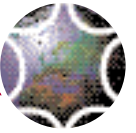
The sort of complexity indicated by these studies also relates to what we see in Italy. Any casual observer can see the difference between S.Croce and Arzignano with the latter having fewer and larger businesses. Both Natuzzi and Benetton grew out of local clusters to dominate their segments, and both have become important to the leather industry not just in terms of leather consumption but equally in how we look at logistics, the traditional retail seasonality, and how prices should be set. These companies have become the centre of hub-and-spoke structures, and increasingly their spokes have extended internationally to reach new consumers and alternative lower cost manufacturing regions.

These international linkages are important and are used to demonstrate why Brazil has been more successful on the world

GEOS footwear mixes contemporary design with its patented breathing soles.



stage than Mexico. Mexico had a closed market for many decades and the leather and footwear cluster had a profitable life serving only the domestic market. They did not build the international linkages to upgrade the quality of their product and designs, nor to increase efficiency to hold or reduce costs. When their market opened up they were highly vulnerable to imports and without the international linkages to take their product into export markets. To the outside observer the fact that Mexico has failed over the last four decades to establish an unassailable position in the huge US market just over the border seems incredible, but the enthusiasm to stay home was just too great. Brazil has had its ups and downs but has always stayed in touch with foreign markets, using knowledgeable intermediaries cleverly to routinely adjust the positioning of Brazilian leather and footwear to meet changes in the world market. Given its current ambitions, it was not surprising to see an impressive representation of Brazilian



footwear, focusing on the Spanish market, at this September's SiPiel exhibition in Madrid.

In the Italian textile and leather industries the machinery companies were the first to look abroad as they needed a larger market to defray their development costs. This creates concern as they export technology developed within the clusters. This is an argument which will run and run, but it is too late now to do anything about it. In the leather sector it is doubtful if it can be such an issue as with textiles. In reality the free access to chemicals, technical assistance and itinerant western technicians has been far more important in leather technology transfer than machines.

Indeed at the seminar TFL highlighted that they had 17 sister companies around the world. The TFL Academy in Italy is an international service centre and over the last three years has been receiving more and more visitors. TFL noted that with chemical production when the labour cost was under 5% there was no impact on location, but that at between 5-10% there was a movement towards centres with lower labour costs. For the leather industry labour costs run closer to 15%, which does not bode well for European manufacture.

For clusters to succeed

So what do we learn from all this? First that industrial districts do have great value in many respects related to dealing with effluent, the provision of a pool of trained labour, being innovative and highly flexible. Yet if they cannot position themselves in the real world which is now very international their ability to compete will diminish and

they will have to retreat to selected smaller market niches. Also that the structure of a cluster of small companies tends to be good at incremental product development, which is excellent for seasonal fashion, but not so good at the more profound long term innovation that seems to be increasingly important in leather manufacture.

For clusters to succeed they must develop a strong international marketing competence, maintain a dialogue with dealers and experts that link them into the international brands, and we must expect stronger, more vertically integrated businesses such as GEOX, Benetton and Natuzzi to become increasingly dominant. These are the companies that have grasped Mr Polegato's understanding of the knowledge economy and the need for innovation in product and process.

As he was proud to tell the meeting Mr Polegato noted that his unique sole structure is patented in 100 countries, GEOX has been growing at 50% per annum, and now makes 4.5 million pairs. It is not surprising that GEOX is preparing for its first IPO.

For the rest of Europe's leather industry, niches will continue to exist, but these will never offer the levels of employment that the industry has provided in the past.

This brings us to our final point, which is to ask whether young people in Europe do actually still want to work in tanneries and shoe factories. There is some evidence in the footwear industry and in Arzignano tanneries that young people prefer to go to university and seek jobs in other areas, and that even for the less academic young people work in shoe shops is seen as more rewarding than jobs in shoe factories. ●